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May 10, 2024

Proposed International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting

To the members of the International Ethics Standards Board for Accountants:

Grant Thornton International Ltd. (GTIL) appreciates the opportunity to comment on the exposure draft, Proposed International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting.

GTIL is an umbrella organisation that does not provide professional services to clients. Professional services are delivered by GTIL member firms around the world. Representative GTIL member firms have contributed to and collaborated on this comment letter with the public interest as their overriding focus.

GTIL wants to thank the Board for their continued efforts to serve the public interest and acknowledges the challenges they face to set high-quality standards that will enhance the profession.

However, we have concerns around the lack of coordination between the IESBA and IAASB regarding their respective sustainability workstreams and the resulting:

- overreach of the proposed ethical/independence standards, and
- the inconsistencies between the assurance and ethical/independence standards applicable to sustainability assurance engagements.

We believe the ethical standards should support the assurance standards, which is why collaboration and coordination between the two boards is critical.

We are also concerned that the Board's objective to finalize the standard in December 2024 will not allow sufficient time to eliminate the inconsistencies between the IAASB and the IESBA's proposals. The IAASB is continuing to work on resolving comments from their exposure draft, and we believe it is important that the definitions and guidance in the assurance standards and the ethics and independence standards align.

The inconsistencies in the standards will lead to misapplication or inconsistent application of the standards which is not in the public interest. We strongly urge the Board to take their time and go through the due diligence process to ensure the two standards align.

Lastly, GTIL has ongoing concerns regarding the volume of projects being undertaken by the Board and the anticipation that firms will be able operationalize and implement the provisions in a timely manner.

Request for Specific Comment

Main objectives of the IESSA

GTIL agrees that developing high quality ethical, including independence, requirements for sustainability assurance engagements, is in the public interest.

However, we do not believe the requirements necessarily should be the same as financial statement audit engagements because the threats present in a sustainability assurance engagement may be different than those present in financial statement audit engagements. We believe IESBA should have spent additional time analyzing the threats that could arise in a sustainability engagement to see if they are comparable to those in financial statement audits.

Furthermore, professional accountants in public practice adhere to audit, assurance, and quality management frameworks that are robust and comprehensive and support compliance and adherence to the requirements in the Code. Unless sustainability assurance practitioners are subject to a similar regulatory environment as professional accountants in public practice, which monitor compliance with these frameworks, we do not agree that a framework-neutral approach will achieve quality in sustainability assurance engagements.

We note that The Monitoring Group, in their 6 February 2024 press release, stated that, "The standards will provide a global framework for assurance engagements over sustainability information prepared under any reporting framework and that can be used **by all practitioners, both professional accountants and non-accountant assurance providers**." (emphasis added) It is unclear, however, how these proposed standards will be applied to non-accountants. Nor is it clear how non-accountants will be held accountable for adherence to the standards.

Furthermore, we have the following concerns regarding the proposal:

- The standard mirrors the independence requirements for financial statement audits and the terminology used in the standard is not based on sustainability assurance concepts and will be confusing for non-Professional Accountants to understand.

- The complexity of the standard will be difficult for assurance service providers who are not Professional Accountants to operationalize, leading to inconsistent adoption and application of the Code, which we believe is not in the public interest. We also the believe the complexity of the standard will present challenges for Professional Accountants to operationalize.

Definition of Sustainability Information

The proposed IESBA definition of ‘sustainability information’ encompasses the IAASB’s definition of ‘sustainability matters’ and ‘sustainability information” in subparagraph (b) of the definition.

We believe having inconsistent terminology in the standards will lead to a misunderstanding on what is considered sustainability information, potentially leading to misapplication of the requirements. Furthermore, as we have seen with other standards, not aligning terminology can lead to unintended consequences.

Therefore, we strongly encourage the two boards to coordinate further to promote consistency.

Scope of Proposed IESSA in Part 5

GTIL understands the Board’s intent to create ethics and independence standards for all sustainability assurance engagements that are similar and as robust as the ethics and independence standards applicable to audit engagements. However, the challenge is that sustainability assurance engagements are performed by a broader group of practitioners than just Professional Accountants.

While Professional Accountants understand the scope of the ethical standards and independence requirements in the Code and the importance of complying with them, we believe applying and operationalizing these requirements by assurance professionals that are not Professional Accountants will be challenging because the Code has not been the underpinning for their professional assurance engagements.

The proposed standard transposes concepts from Part 4A of the Code with slight modifications for sustainability assurance engagements. The independence requirements in the Code, including the permissibility of non-audit services, applicable to financial statement audits has been developed over time and refined to be relevant and fit for purpose for financial statement audits.

Furthermore, when applying the independence requirements to the sustainability assurance client, the proposed standard requires independence of the sustainability assurance client’s related entities. The definition of ‘related entity’ in the Code is applicable to audit clients and may not be appropriate for sustainability assurance engagements as these entities’ sustainability information may not be included in the sustainability client’s report.

Therefore, we recommend the proposed requirements should focus on entities that report information subject to the sustainability assurance engagement.

NOCLAR

As a general comment, GTIL has overall concerns with the applicability of the NOCLAR provisions to sustainability assurance engagements because once again, these requirements are very specific to financial statement audit engagements, and we believe the Board has not gotten a comprehensive understanding of how these requirements would apply to sustainability assurance engagements.

Furthermore, we have concerns that non-Professional Accountants that are sustainability assurance practitioners will fail to understand the NOCLAR requirements and how to operationalize them, especially understanding applicable confidentiality laws and regulations in different jurisdictions.

Lastly, we do not support sustainability assurance practitioners and auditors communicating NOCLAR to firms outside their network, as confidentiality laws in various jurisdictions may prohibit such communications.

Determination of PIEs

The Code has been developed over a long period of time to address the relevant considerations for financial statement audits and what is in the public interest, where sustainability assurance engagements are still a developing service area. Accordingly, GTIL does not agree with extending the PIE requirements to a sustainability assurance client when the practitioner is not also the financial statement auditor.

When determining if an entity is PIE for purposes of a financial statement audit, the entity's financial condition is taken into consideration with the public interest in mind. In sustainability assurance engagements, the client is reporting on data and metrics that may not be financial in nature and may have no direct correlation or significant impact to the entity's financial condition.

Furthermore, factors used for consideration in determing if an entity is of public interest for financial statement audits would not necessarily be applicable when considering whether an entity should be considered a PIE for sustainability purposes. We believe in circumstances when the assurance practitioner is not also the auditor of the entity, the PIE requirements may be complicated and burdensome to operationalize, considering the same threats to the public interest may not exist, especially when the underlying subject matter is not of significant public interest.

Therefore, we recommend that IESBA take this under consideration when determining whether the PIE requirements in part 4A of the Code are appropriate for sustainability assurance engagements.

Group Sustainability Assurance Engagements

GTIL does not agree with the International Independence Standards in Part 5 that specifically address the independence considerations applicable to group sustainability assurance engagements. The IAASB is still discussing group assurance standards for sustainability engagements.

The proposed independence requirements for group sustainability assurance engagements are equivalent to the independence requirements in section 405 for group audits. The group audit standard in the Code was developed to support the requirements in ISA 600 and the requirements in the group audit standard of the Code may not be appropriate for sustainability assurance engagements.

Therefore, we recommend IESBA wait until the IAASB issues group assurance standards before developing independence requirements for group sustainability assurance engagements, so that the IESBA requirements align to and are supportive of the assurance standards.

Assurance at, or With Respect to, a value chain entity

GTIL does not support the definition of 'value chain' in the context of sustainability assurance engagements. The IASSB is still discussing value chain entities from an assurance perspective, so it is unclear how the Board determined what the implications and impact on these entities could be from an independence perspective.

There is limited guidance and application material in the proposed standard to help practitioners determine what types of relationships, interests, or circumstances involving a value chain entity could bear on independence. Furthermore, the independence requirements with respect to value chain entities is very broad.

Accordingly, we believe this could lead to inconsistent application of the standard and potentially lead to significant compliance issues when trying to monitor independence to value chain entities.

Therefore, we recommend IESBA consider value chains and the ethical/independence requirements for value chains in a separate project, once the IAASB issues their sustainability assurance guidance, to ensure that the IESBA requirements align to and are supportive of the assurance standards.

Providing NAS to Sustainability Assurance Clients

Sustainability is an emerging area and the non-audit services performed for sustainability assurance clients is also emerging and developing. For this reason, we do not agree with IESBA's approach to lift the requirements from section 600 in the Code for non-audit services provided to financial statement audit clients and include them in the proposed standard.

The provision of NAS in section 600 has been developed for what is relevant to financial statement audits and the impact of such services have on the financial statements.

The approach taken by the Board does not reflect the nuances of sustainability services and may fail to capture future services that are becoming more prominent.

Therefore, we recommend the Board consider providing more practical examples of sustainability services and their impact on independence.

Independence Matters Arising When a Firm Performs Both Audit and Sustainability Assurance Engagements for the Same Client

GTIL does not agree with the approach in Part 5 related to the portion of fees.

The independence requirements being proposed for sustainability engagements are equivalent to those for financial statement audit engagements, yet the proposed standard requires the fees from the sustainability engagement to be classified as an 'other fee.'

We believe the Board should reconsider its proposal and reconsider whether to require fees from a sustainability engagement be classified as 'other fees.'

Regarding long association, GTIL does not agree with extending the PIE requirements, such as partner rotation, to a sustainability assurance client when the practitioner is not also the financial statement auditor for the reasons discussed above in the section "*Determination of PIE*s."

Scope of Sustainability Reporting Revisions and Responsiveness to the Public Interest

GTIL can see benefits of additional assurance service providers in the marketplace, however assurance services provided by Professional Accountants provides a clear quality differentiator among users of sustainability information subject to assurance. Regarding the ethics and independence requirements, there is a general understanding of how ethics and independence are a requirement for Professional Accountants when delivering assurance services, which adds to the quality of reporting and the respect they maintain in the marketplace.

Recognizing that there are many assurance providers that are not Professional Accountants, the broader public interest is served by a unified understanding and expectation of independence of assurance providers. We believe implementation of the proposed standard will be challenging for sustainability assurance providers that are not Professional Accountants. How will the requirements be monitored or enforced for non-Professional Accountants?

Furthermore, would users of information or the broader marketplace clearly understand that a unified ethics/independence requirements would not necessarily translate to a similarly high level of quality in reporting, which is dependent on the underlying assurance standard(s) utilized and other factors inherent to Professional Accountants (education requirements, training/continuing professional education requirements, systems of quality control, etc.).

Proposed Revisions to the Extant Code

As discussed above, sustainability assurance engagements are an emerging area and we do not agree with IESBA's approach to lift the requirements from the Code applicable to financial statement audits and make confirming changes without understanding the applicability and impact the requirements have on sustainability engagements.

With respect to value chain entities, please refer to the discussion in the section above "*Assurance at, or With Respect to, a value chain entity*."

Effective Date

We believe the Board will have many comments and considerations to address resulting from the comment period and do not believe approving the final pronouncement by December 2024, to align with the IAASB, will give the Board ample time to go through due process, which is not in the public interest.

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GTIL would like to thank the IESBA for this opportunity to comment. As always, we welcome an opportunity to meet with representatives of the IESBA to discuss these matters further. If you have any questions, please contact Gina Maldonado-Rodek, Director – Global Risk Management and Independence at gina.maldonado-rodek@gti.gt.com.

Sincerely,

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